Economics 231: Public Finance   University of Pennsylvania

Syllabus

Fall 2019
Professor Hanming Fang
Email: `hanming.fang@econ.upenn.edu`

COURSE LOGISTICS:

Class Meeting Time & Location: Tuesday and Thursday 1:30-3pm, Room: McNeil 150
Office Hours: Monday 3:30-5:00pm, Room 605, PCPSE (133 S. 36th St.); and by email appointment

Teaching Assistant: Ghorbani, Sajad. Office: Room 650, PCPSE (133 S. 36th St.);
Email: `sajadgh@sas.upenn.edu`; phone: (215) 459-9225.
TA Office Hours and Location: Wednesday 8-10am; Friday 5-7pm; PCPSE 600, and by appointment.
TA Review Sessions: Scheduled prior to exams on **September 23** (Monday), **October 29** (Tuesday) and **December 3** (Tuesday) between 6-8pm. Additional sessions in lieu of office hours, if necessary, will be announced in class as they are scheduled.

COURSE DESCRIPTION:
Prerequisites: Econ 101 (intermediate micro theory), Math 104 (Calculus, Part I) and Math 114 (Calculus Part II) or Math 115 (Calculus Part II with Probability and Matrices). Econ 103 (Statistics for Economists) is also recommended.

Textbook: Jonathan Gruber: *Public Finance and Public Policy* (6th Edition). WORTH Publishers, 2019.

Available at Penn Book Store or can be purchased online; the 5th edition is also on reserve at Van Pelt Library. Note: Both the 5th Edition (2016) and the 4th edition (2013) of the book are serviceable substitutes.

COURSE SYNOPSIS:
The main goal of this class is to develop a set of tools for analyzing the role that government plays in the economy and the lives of its citizens. In particular, we will consider some reasons for government intervention in a market economy and study the impact of government expenditure programs and taxation systems on the welfare and behavior of its citizens. The course will cover a wide range of issues in public finance with a focus on current policy debates and issues. Topics covered will include the common use of natural resources, the environment, public goods, education, health care reform, social security, public assistance program, and taxation.

CLASS CANVAS:
We will use the class Canvas site: https://canvas.upenn.edu/courses/1473840 for all postings of course materials, including syllabus, lecture notes, problem sets/solutions, practice exams, and announcements.

COURSE REQUIREMENT AND GRADING POLICY

Requirements for this class include three in-class midterm exams and four problem sets. Each exam will cover material from roughly a third of the class:

- The *first midterm exam* will be given in class on **September 24, Tuesday;**

- The *second midterm exam* will be given in class on **October 31, Thursday;**

- The *third midterm exam* will be given on the final day of class, **December 5, Thursday**.

- The *four problem sets* will be dispersed at regular intervals throughout the semester and will include problems indicative of those that will be used on the exams.

Please make sure that you schedule your travels, including job interviews, to **avoid the exam dates**. The policy regarding missing exams is described in Rules #8 and #9 in the class policy section of the syllabus.

- Class participation is mandatory, though I will not take attendance. Additional credit may be given based on participation in the general class discussions on some marginal cases.

- As mentioned below in class Rule #1, if a student repeatedly fails to attend classes without proper excuses, he/she will receive a lower grade.

Grades for the class will mainly be based on these requirements in roughly the following proportions:

Problem Sets (4) (equally weighted)	25%
First In-Class Midterm Exam **(September 24, Tuesday)**	25%
Second In-Class Midterm Exam **(October 31, Thursday)**	25%
Third In-Class Midterm Exam **(December 5, Thursday)**	25%

The *median* grade for the course will be B+, thought the exact distribution of grades varies from year to year. A+ is awarded to students who achieved exceptional performance in the class.

CLASS SCHEDULE AND READING ASSIGNMENTS

Part I: Introduction and Background

[1]. **August 27:** Background/Introduction to Public Finance

Reading: Chapter 1

[2]. **August 29:** Review of Theoretical and Empirical Tools for Public Finance

Reading: Chapters 2 & 3

Part II: The Economics Basis for Government Activity

[3]. **September 3 & 5:** Externalities, and Government Interventions: Coase Theorem; Markets for Pollution Rights

Readings: Chapters 5 & 6

Additional Readings:

- Robert Stavins (1998): "What Can We Learn from the Grand Policy Experiment? Lessons for SO2 Allowance Trading." *Journal of Economic Perspectives*, Vol 12, No. 3, 69-88.

- Josh Barro, *Don't Want Me to Recline My Airline Seat? You Can Pay Me.* New York Times, August 27, 2014.

[4] **September 10:** Public Goods and the Free Riding Problem.

Readings: Chapter 7.

Additional Readings:

- John Tierney: "A Tale of Two Fisheries", NY Times Magazine, August 28, 2000.

[5]. **September 12 & 17:** How Are Public Policies Made? Public Choice and Political Economy.

- Readings: Chapter 9.

[6] **September 19:** Review and discussions for Part I.

[7]. **September 24 (Tuesday): First In-Class Midterm (covering Part I & II)**

Part III: Selected Issues of Government Expenditures and Policy in the United States

[8]. **September 26:** State and Local Government Expenditures

Reading: Chapter 10

[**9**]. <u>**October 1**</u>: Education

    Reading: Chapter 11

[**10**]. <u>**October 3:**</u> What is Social Insurance?

    Reading: Chapter 12

    Additional Readings:

- Martin Feldstein: Rethinking Social Insurance. NBER Working Paper

[**11**]. <u>**October 8:**</u> Social Security

    Reading: Chapter 13

    Additional Reading:

- Martin Feldstein: Structural Reform of Social Security. Journal of Economic Perspectives, Spring 2005, page 33-55.

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[October 10: Fall Break]

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[**12**]. <u>**October 15:**</u> Other Social Insurance Programs: Unemployment Insurance, Disability Insurance etc.

    Reading: Chapter 14

[**13**]. <u>**October 17 & 22:**</u> Health Care and Health Care Reform

    Reading: Chapters 15 & 16

    Additional Readings:

- Hanming Fang (2017). "The Economic Realities of Replacing the Affordable Care Act." Wharton Public Policy Initiatives Issue Brief, Volume 5, No. 3.
- Karl Denninger (2017). "The Bill to Permanently Fix Health Care for All." Market Ticker Blog.
- Paul Howard and Stephen T. Parente (2010). "Toward Real Health Care Reform." National Affairs, 2010.
- Milton Friedman (2001). "How to Cure the Health Care". The Public Interest. Winter 2001.
- Paul Krugman, Health Care Reform Myths. March 12, 2010, NY Times.
- John H. Cochrane, *After the ACA: Freeing the market for health care.* October 18, 2012

[**14**]. <u>**October 24:**</u> Income Distribution and Welfare Programs

    Reading: Chapter 17

    Additional Readings:

- Hanming Fang and Michael Keane (2006): "Assessing the Impact of Welfare Reform on Single Mothers," Brookings Papers on Economic Activity, 2004, Volume 1, 1-116.
- Welfare reform A patchy record at 20, The Economist, August 20, 2016
- Poverty in America: No money no love, The Economist, August 20, 2016

[15]. <u>October 29:</u> Review and discussions for Part III.

[16]. **October 31 (Thursday): Second In-Class Midterm Exam (covering Part III).**

Part IV: Government Revenue, Government Debts & Economics of Taxation

[17]. <u>November 5:</u> Introduction to Taxation

Reading: Chapter 18

[18]. <u>November 7 & 12:</u> Theory of Tax Incidence

Reading: Chapter 19

November 14: No Class; Teaching Assistant will give a review session.

[19]. <u>November 21:</u> Deadweight Loss from Taxation and Theory of Optimal Taxation

Reading: Chapter 20

[Note that Friday classes will be held on November 22, Wednesday according to university academic calendar.]

[20]. <u>November 26:</u> Theory of Income Taxation & U.S. Personal Income Tax System in Practice; Taxation of Savings

Reading: Chapters 21 & 22

November 28: Happy Thanksgiving!.

[21]. <u>**December 3: Review and Discussions**</u>.

[22]. **December 5 (Thursday): Third in-Class Midterm Exam (covering Part IV).**

Class Policies for Econ 231 (Fall 2019)

1. **Attendance:**

   Attendance of lectures is required, but I rely on honor system and will not take attendances. If a student repeatedly fails to attend classes without proper excuses, the student will receive a lower grade. I understand that some of you may have to schedule a must-do interview and miss a class. Please let me know beforehand for permission.

2. **Cooperation:**

   You may discuss homework assignments with each other; however, each individual **must submit a separate homework assignment** (i.e. *write neatly/type up your own answers, no copies*), and each individual will be separately graded on the assignment. You may **not** cooperate while taking exams.

3. **Aids During Exams:**

   All exams are closed book. You may not communicate or cooperate with anyone on the exam.

4. **Format of Assigned Work:**

   All homework assignments must be legible to the professor/TA/grader. If your handwriting is not easy to read, I would urge you to type the solutions to make sure you are properly credited. All hand written answers to exam questions should be legible. Spelling, grammar, style, etc. do not "count" per se. However, anything that the TA or I cannot read or understand is wrong. Poor spelling, grammar, style, etc are often confusing.

5. **Lateness:**

   Due and return dates for assignments will be announced in class. These dates are binding. Late assignments are not accepted without either proper arrangement and compelling, verifiable reason.

6. **Return of Homeworks and Exams:**

   Homeworks and exams will be returned to you during class. You are responsible for picking them up.

7. **Re-grade requests:**

   A request for a re-grade of a problem set or an exam must be submitted to me in writing. In such a case, I will reevaluate your *complete* homework set or exam.

8. **Exam Attendance Policy:** I follow the economics department's policy on exam attendance. Please see
   https://economics.sas.upenn.edu/undergraduate-program/course-information/guidelines/policies
   for details. The policy is copied below:

   "In cases where attendance at a midterm or a final exam is mandatory, there are only a few valid excuses for missing an exam. They are:

   - Three exams scheduled within one calendar day (for final exams ONLY!) This policy of 3 exams does not count for midterm exams given during class time.

- An exam is given outside of the regular class schedule and the timing conflicts with another class in which the student is enrolled.
- Observance of a university-recognized religious holiday.
- UPENN Business that takes you away from campus. Absence from campus on UPENN business includes, for example, athletic events in which you are actively participating. In such cases, you need to make arrangements with your professor ahead of the exam date to take the exam at another time (preferably earlier than the schedule date).
- An illness/health emergency.
- A death in your family.
- Documented disabilities that allow you to take the exam under other circumstances.

Examples of reasons that are **not** valid for missing an exam are:

- job interviews;
- job internships;
- beginning fall or spring break early or returning after a scheduled exam;
- end of semester early flights;
- any other reason you would prefer not to be at the university when the exam is scheduled.

Students are responsible for making sure, at the beginning of the term, that they can attend the exams. Registering for a course means that you certify that you will be present for the exam (unless one of the explicitly stated exceptions above arises.)

If you are unexpectedly ill at the time of the exam and unable to reach the instructor ahead of time, then you can give notification of your illness as soon as you are able. Do not take an exam if you are ill and then expect to have an opportunity to retake the exam because you were ill the first time and did poorly.

Students who arrive late to an exam will generally be required to hand in their exam at the same time as other students."

9. **Make-up Exams:**

   There are no make-up written exams. However, if you have one of the valid excuses listed above for missing a midterm, your next midterm will be worth 50% of your grade if the one you missed is either the first or the second midterm. If your missed exam is the third midterm, then I will administer an oral exam to replace it.

10. **Documents (including problem sets, practice exams, exams and their solutions), regardless of whether they are physically distributed during this course or are posted on Canvas site, are only for students enrolled in this course. Any re-posting online (or on any course material sharing website) is prohibited.**